



FY 2017 Spending Affordability Advisory Committee

Initial Meeting

January 07, 2016

Agenda

- Introductions
- About the Committee and Its Responsibility
- County Budget Overview
- County Multi-Year CIP Budget Overview
- Last Year's Committee Report (Handout)
- Schedule for future meetings

The Charge of the Committee

General Responsibilities

- Review in detail the status and projections of revenues and expenditures for the county, not only for fiscal year 2017, but also for fiscal years 2018 through 2021.
- Evaluate future county revenue levels and consider the impact of economic indicators such as changes in personal income, assessable base growth, and other data which the committee considers applicable.
- Evaluate expenditure levels with consideration of the long-term obligations facing the county, and the best way to pay for them.

A REPORT IS DUE TO THE COUNTY EXECUTIVE ON OR BEFORE MARCH 1, INCLUDING::

- A. Projections of revenue for the upcoming fiscal year
- B. Recommended level of new county debt authorization
- C. Anticipated effect of the committee's budget recommendations on future budgets
- D. Other findings and/or recommendations that the committee deems appropriate

Key Challenges To the County and the Committee

What is the Outlook for short and long term revenue growth in the County?

- Property Tax
- Income Tax
- Other Revenues

Where will the growth in the economy come from and is it sustainable?

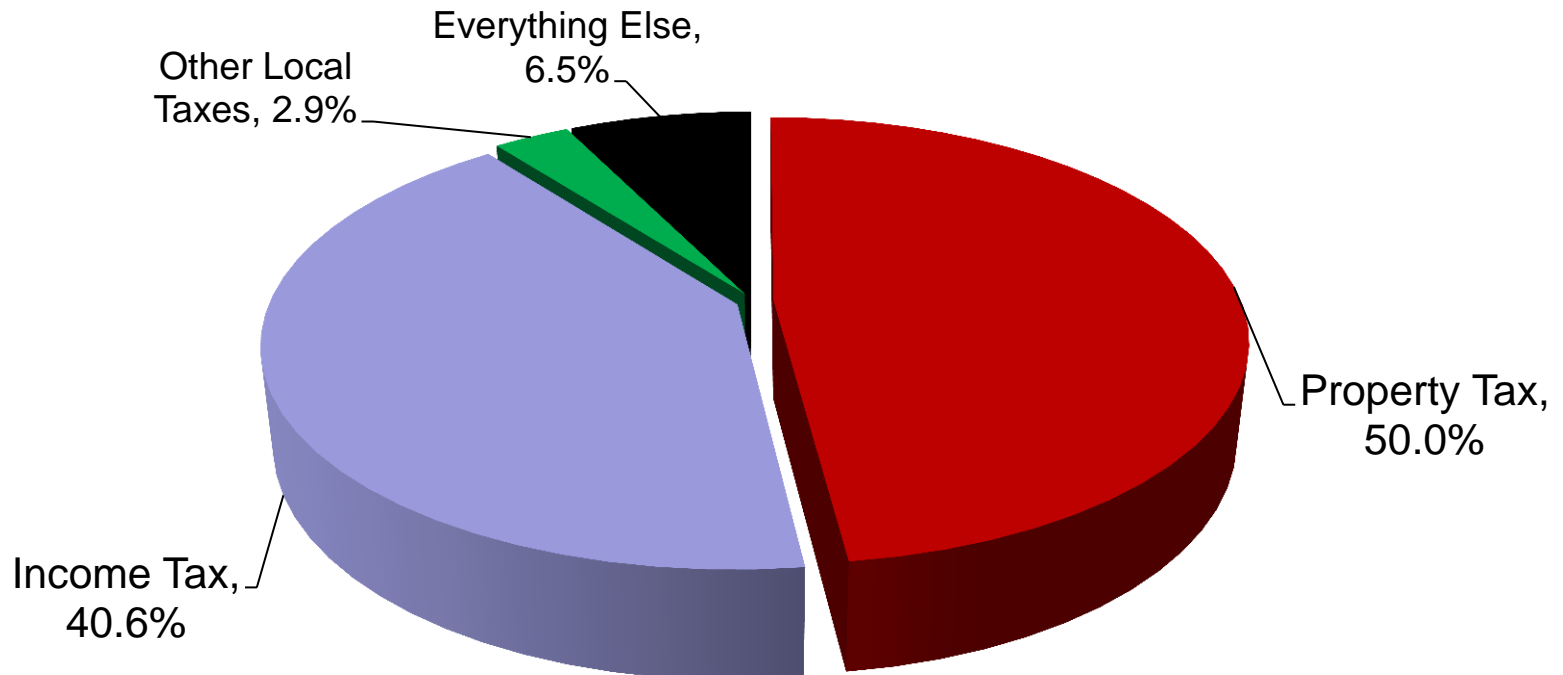
What is a sustainable level of spending in the operating budget given the projected revenue growth and mandated/committed/projected expenditure growth?

- Education
- Public Safety
- Human Services
- Infrastructure Costs
- Storm Water
- Employee and Retiree benefits
- Debt Services
- ...

What is a sustainable level of spending and debt in the Capital Budget?

General Fund Revenue Structure

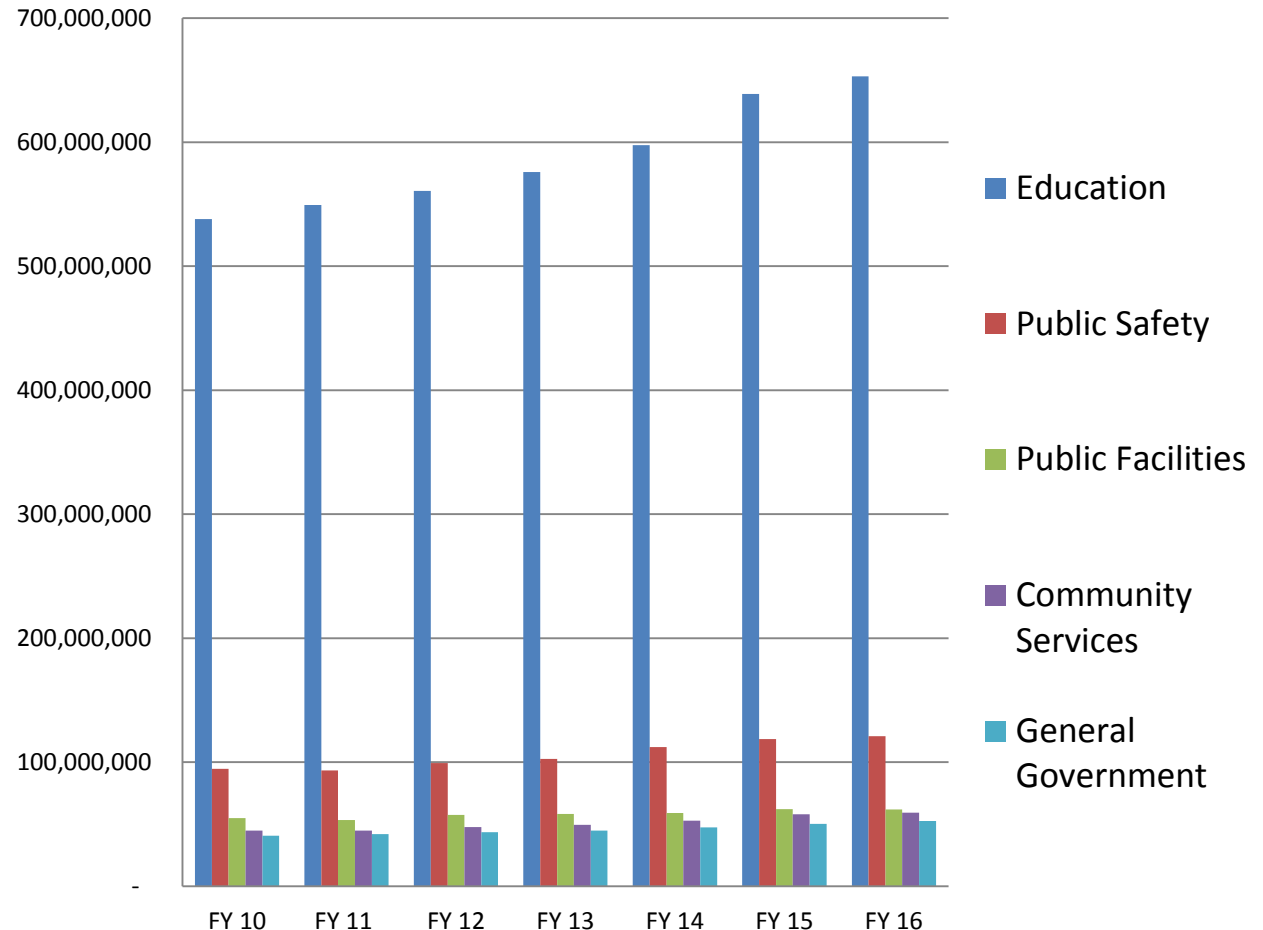
Property Taxes + Income Taxes = 90% of Total



General Fund Expenditure Structure

General Fund Budget By Sector
(FY 2010 ~ FY 2016)

- Education remains our No. 1 priority, followed by public safety
- County contribution to education represents nearly two thirds of our total General Fund budget



Debt Affordability Measures

- Debt measured as a percent of the County's assessable base. The County Charter limit is 12% of assessed value. Since the State moved from the 40% cash value assessment of real property to full cash value assessment, to remain consistent with the Charter limitation, County debt should not exceed 4.8% of the full value assessment. [FY14: 2.2%]
- Debt measured against the population on a per-capita basis. [FY14: \$3,271]
- Per-capita debt measured as a percent of the jurisdiction's per-capita personal income. This measure should not exceed 10% in the view of many analysts.[FY14: 4.4%]
- Debt Service as a percent of current revenues. Ten percent or below is generally considered an appropriate level, with 15% and above as a danger point [FY14: 9.5%]

What Measures Do Our Neighbors Use?

Anne Arundel County

Growth in spending in the operating budget \leq growth in personal income growth.
Outstanding Debt not to exceed 3% of Personal Income

Baltimore County –

Growth in spending in the operating budget \leq growth in personal income growth.
The County's level of debt service as a percent of current revenues \leq 9%.
Debt as a percent of assessable base not to exceed 2.2%

Prince George's County –

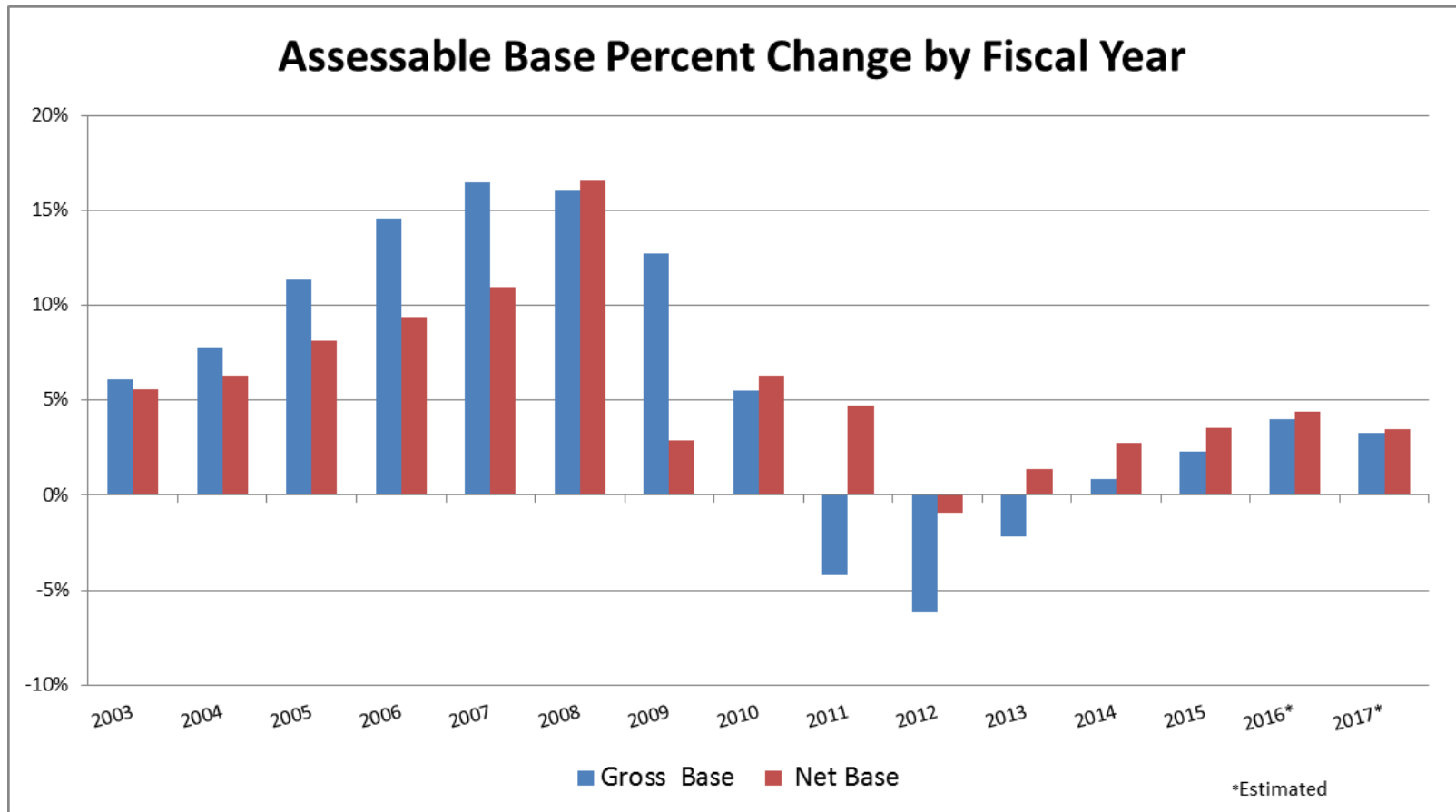
The County's level of debt service as a percent of current revenues \leq 8%.
Debt as a percent of assessable base not to exceed 2%

State of Maryland –

The State debt not to exceed 3.2% of the State's Personal Income.
The State debt service not to exceed 8.0% of the State's revenues supporting debt service.

Property Assessable Base Change

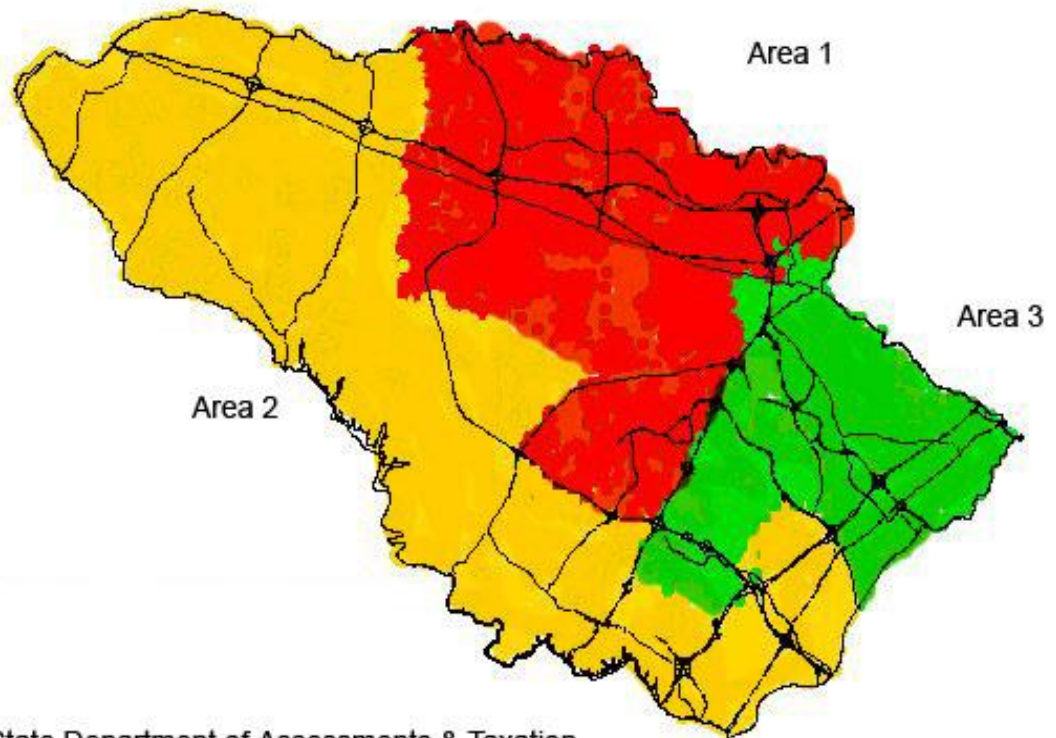
- Property base projected to maintain a moderate growth
- Latest FY 2017 reassessment data from the State shows a slowdown.



County Real Property Reassessment

Reassessment Growth (before 3-year phase-in)

- **Group 1 for FY17:**
9.0% (3.0% per year)
- Comparatively,
Group 3 for FY16:
10.5% (3.5% per year);
and Group 2 for FY15:
8.1% (2.7% per year)



State Department of Assessments & Taxation
January 2006

Group 1 Reassessment Growth Before Phase-In

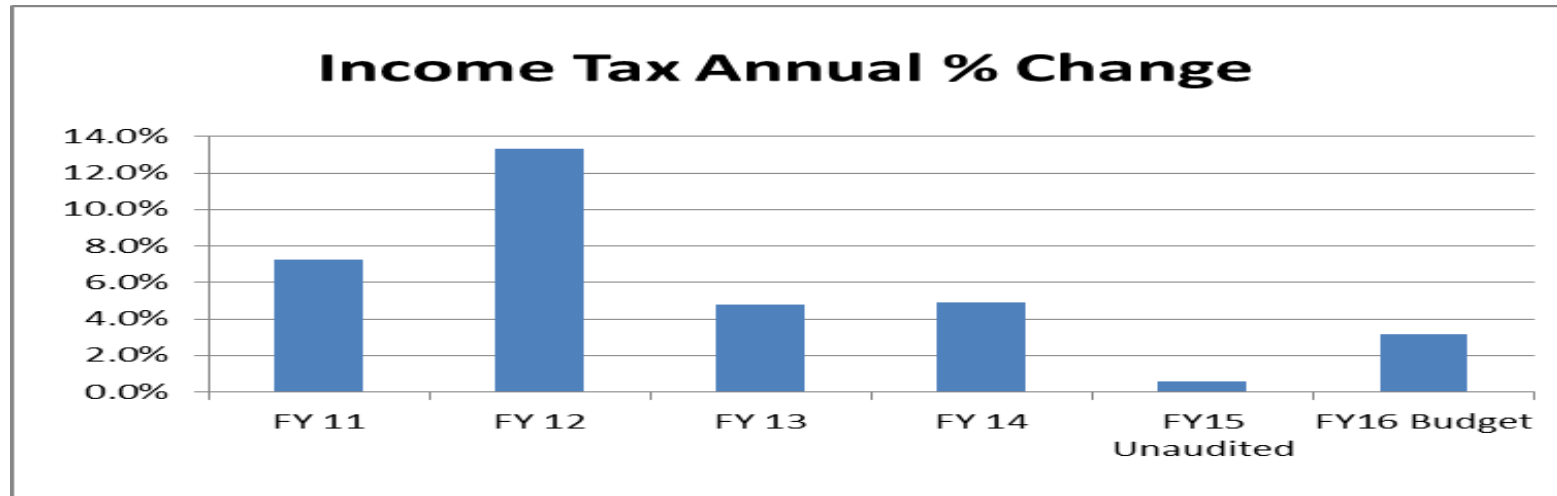
• Anne Arundel County	11.5%
• Baltimore City	10.9%
• Baltimore County	12.4%
• Montgomery County	11.1%
• Prince George's County	24.7%
• Howard County	9.0%
• Statewide	10.9%

Commercial vs. Residential Reassessment Growth

	<u>Commercial</u>	<u>Residential</u>
• Anne Arundel County	22.4%	10.1%
• Baltimore City	21.4%	4.9%
• Baltimore County	16.1%	10.9%
• Montgomery County	20.9%	9.6%
• Prince George's County	15.7%	29.8%
• Howard County	16.5%	7.3%
• Statewide	16.1%	9.5%

Income Tax Issues

- Income tax receipts experienced hardly any growth in FY 2015 and are expected to witness a moderate recovery in near future.
- Income tax receipts are impacted by not only the economy and Federal government related employment but also the Wynne case , which includes historical liabilities and on-going loss of tax base.



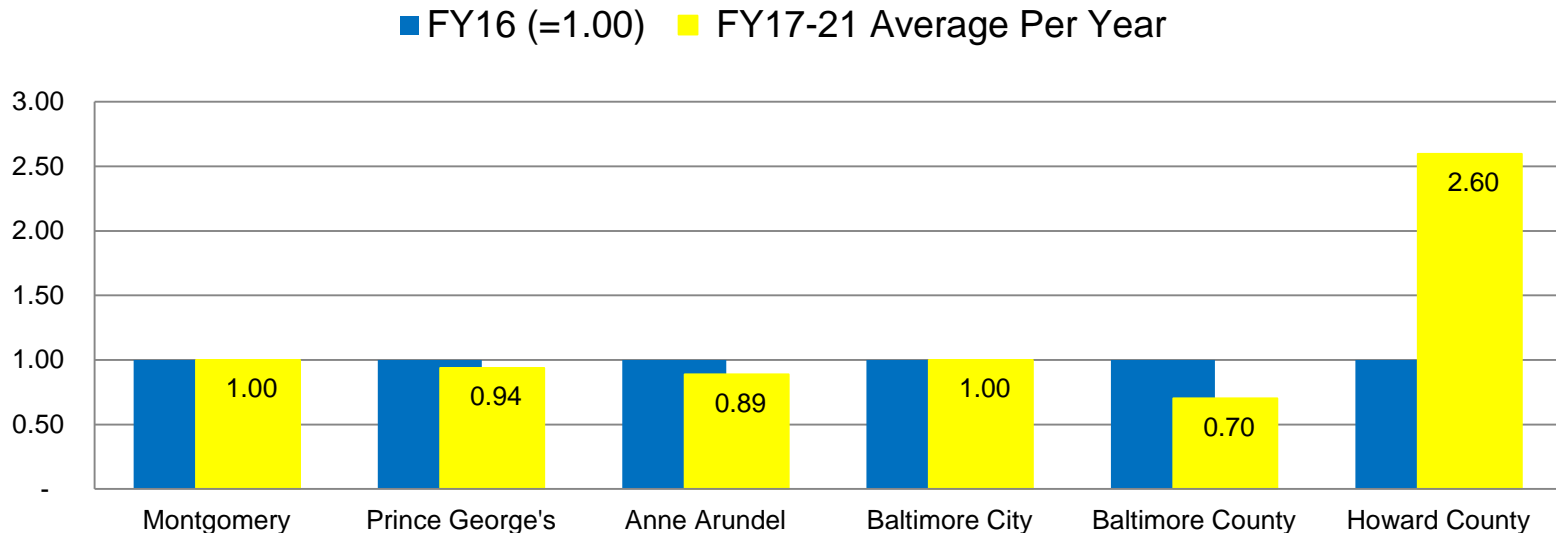
CIP Budgeting: The Issue of (Lack of) A Realistic Multi-Year Plan

- Like operating budget, County CIP Budget makes education the top priority (61% of GO bonds authorized in FY16 budget).
- The County's multi-year CIP budgets show a significant mismatch between reality (as represented by the approved budget for the upcoming fiscal year) and desire (as represented by budget request for the five years beyond budget year)
- In the FY2016-2021 budget, approved GO bonds in FY16 reached \$96 million, but requested GO bonds in FY 17-21 averaged \$249 million per year, **2.6 times** the level authorized for FY 16.

CIP Multi-Year Budget Cross County Comparison

- Howard County is an outlier in term of the approach for CIP planning for the years beyond the upcoming budget year

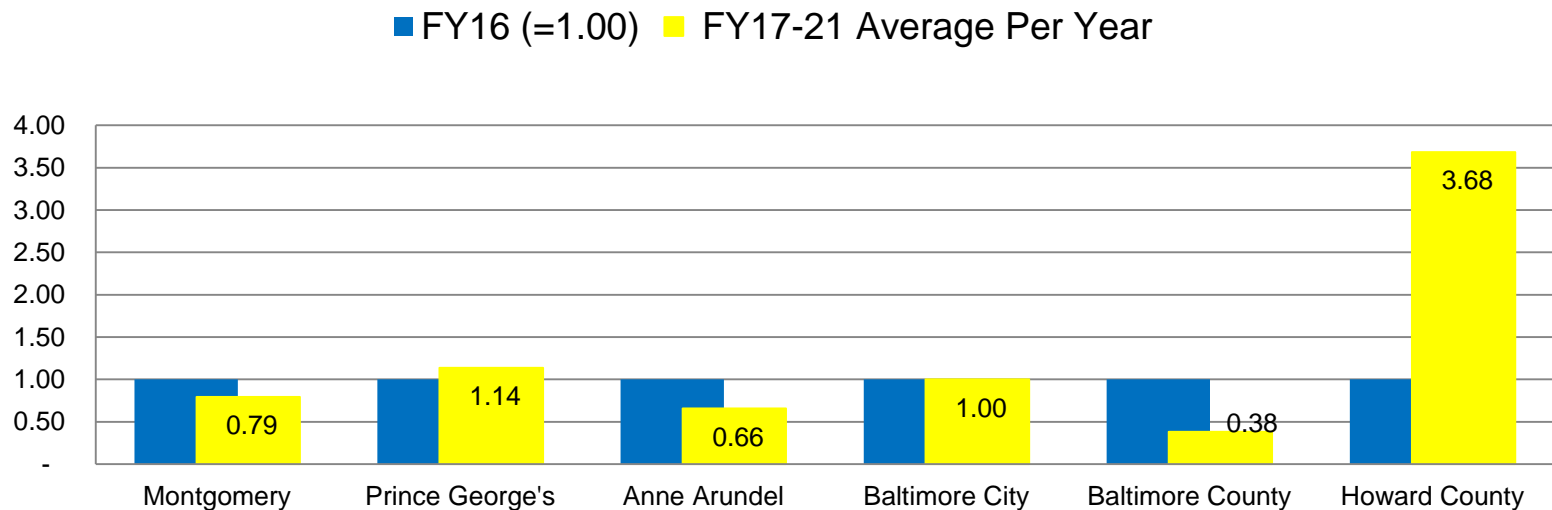
GO Bonds Included in Approved FY16-FY21 CIP Budget (Assuming FY16=1.00)



School CIP Multi-Year Budget Plan – Cross County Comparison

- Similarly, Howard County is an outlier in term of the approach for future School CIP programs beyond the upcoming budget year.

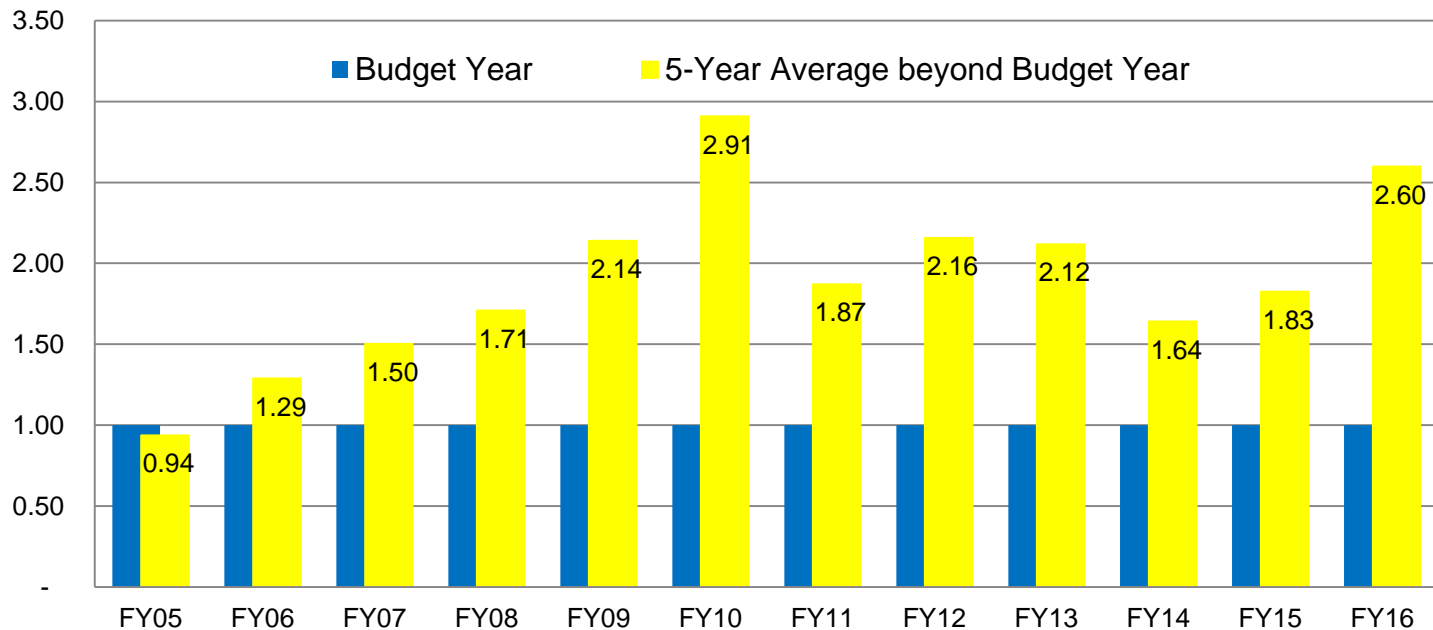
GO Bonds For School Projects Included in Approved FY16-FY21 CIP Budget (Assuming FY16=1.00)



CIP Multi-Year Budget Plan – Historical Practice

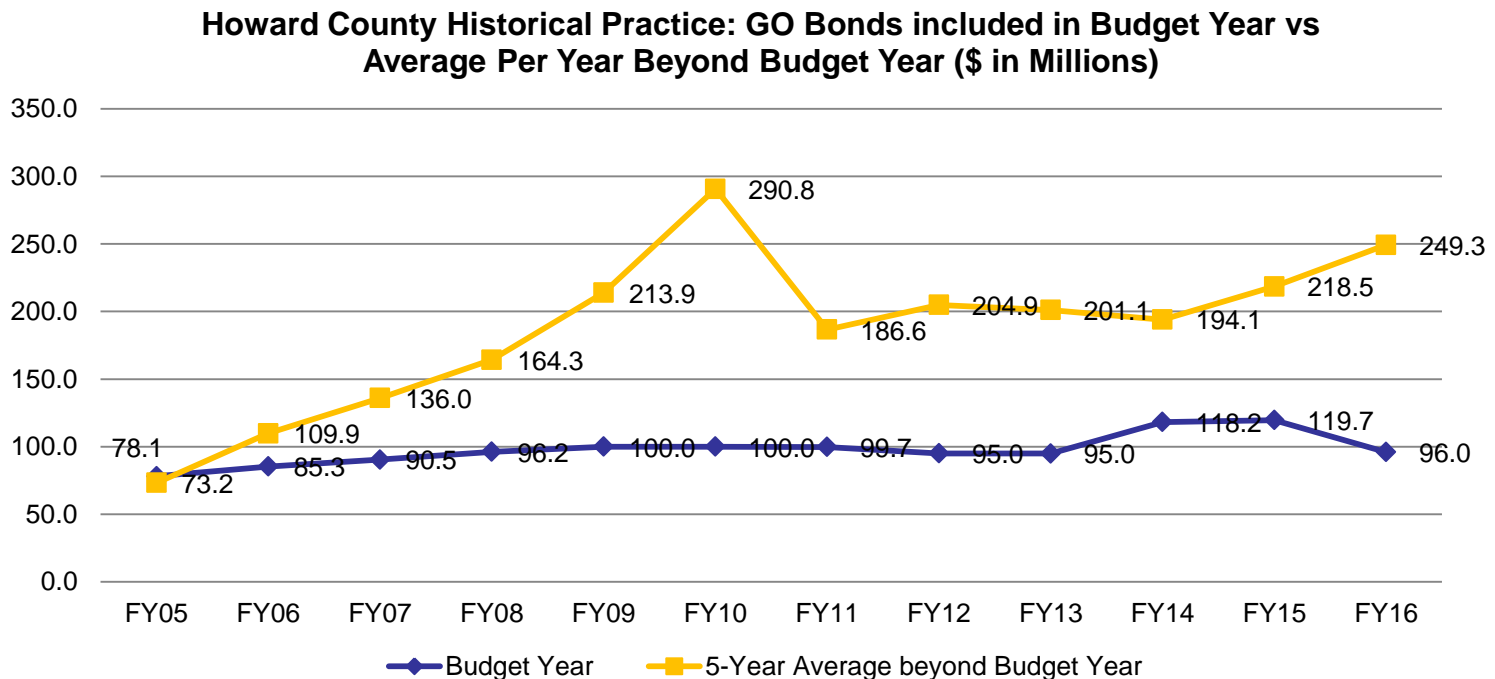
- In the past decade, the County appears to have been “kicking the can down the road” in term of developing multi-year CIP plan

Howard County Historical Practice: GO Bonds Included in Upcoming Budget Year (=1.00) vs 5-Year Average Beyond Budget Year



CIP Multi-Year Budget Plan – Historical Practice (\$ in millions)

- The practice started about a decade ago; since then the gap has been growing
- After a significant bump in FY14 and FY15, authorized bond dropped back in FY16 to historical level following the recommendation of the Spending Affordability Advisory Committee due to concerns on the County's long-term debt capacity



FY 2017-2022 CIP Budget Development

- County Executive requests more realistic multi-year CIP budgeting be achieved in foreseeable future, which requires an understanding of funding and debt trends and constraints, prioritization and realistic multi-year fiscal & program planning.
- In addition, CB-54-2015 requires that starting from FY 2017 budget, all departments and education entities show multi-year CIP funding by funding source by year and explain changes from prior year budget in term of project cost and timeline.

FY 2016 Committee Report (Handout)

- FY 2016 Revenue Forecast
- FY 2016 GO Bond Recommendations
- Debt Indicators
- Multi-Year Projections
- Other Issues
 - Revenue Options to Explore
 - Expenditure Options to Explore
 - Other/Innovative Approaches

Future Meeting Schedules

- 1/14: School, Library, Community College
- 1/21: Stormwater, DPW, Police, Fire, EDA
- 2/4: Clinch economic forecast, DPZ, Citizen Services, Finance
- 2/11: Fiscal outlook for FY 2017, multi-year projections, debt affordability study
- 2/18: Review and discussion of the draft SAC letter
- 2/25: Backup date for inclement weather / revise letter

Note

- SAC letter due by March 1.
- All meetings are at 7:30am-9am, same building & conf. room
- There's NO meeting on 1/28.



- Your Comments, and Questions . . .